South African and global food-processing trends: Development implications

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Presentation outline

• Outline of research completed
• Critical research findings
• Recommendations to develop the South African food processing value chain
  – Policy
  – Regulatory
  – Project-specific
Outline of research completed

• Secondary research: government reports, academic papers (focus on SA and comparator economies)
• Primary research: stakeholder interviews, annual report interrogations, BMA food-processing database, trade and production data analysis, demographic modelling
• Then, detailed analysis of primary and secondary research findings, and compilation of strategic considerations for the development of the South African food-processing sector, with identification of prioritised value chains
• Interrogation of findings with dti officials
Critical findings
Global horizon scan

- World population to grow from 6.9 billion (2010) to 9.3 billion in 2050
- Asia to remain most populated region, but majority of growth stems from Africa, with an annual CAGR of 2.3%
- To 2050, all populations will also age – food demand will therefore be linked to extended average life spans
- Populations in developing economies will continue to undergo the “nutrition transition” and increase their caloric consumption as per capita incomes rise
- Implications for food production are significant:
  - Cereals production will need to increase by 1 billion tons in the 40 years to 2050, to approx. 3 billion tons per annum (excluding biofuels cereals)
  - Meat production will need to increase by 200 million tons
- Yet, any further expansion of agricultural land is considered a threat to global ecological biodiversity, while productivity gains due to scientific farming methods have declined
- Food security issues to therefore become an increasing concern
Global overview: Trade profile and trends

- Increased global trade in food products has been driven by:
  - Population growth
  - Increasing income levels
  - Declining trade barriers
  - Increased investment in processed food products

- This has mobilised the transfer of developed economy trends to the rest of the world (e.g. supermarkets)

- Globalization of the food value chain has raised health and ethical issues, hence the rise of phyto-sanitary standards (e.g., HACCP), and the growth (off a small base) of organic/fair trade market demands in major developed economies
Global overview: Competitiveness profile of the food-processing industry

- Key drivers of food processing competitiveness appear to be:
  - Customer return rates
  - Equipment and line changeovers
  - Raw material inventory holding
  - Absenteeism
- Due to the perishable nature of most products, customer returns imply major costs to processors, as do raw material inventories that expire or are damaged prior to undergoing processing. Similarly, the ability to achieve fast turnaround times on production processes via assembly line and/or equipment changeovers is again linked to the short lifespan of most food consumables
Global overview: Retailer research

- “Buyer-driven” value chain
- Buying-end of the food industry is intensely competitive
- Large retailers compete with conventional and specialty supermarkets, natural foods stores, discount warehouses, smaller specialty stores, farmers’ markets, and restaurants
- Competition is on the basis of price, product differentiation, and an ability to define niche market space. These all play a role in “de-commoditising” product offerings
Comparator economy analysis

• Analysed food policy strategies in the UK, Australia, India and Kenya. Growing concern for food security, price volatility and impacts on the poor clearly evident

• Range of responses, most notably a more integrated government, whole food value chain approach to policy and associated food sector support programme, including:
  – Increased producer support
  – Incentives for Research and development
  – Innovation and commercialization support
  – Support for processing competitiveness
  – Increased food regulation
  – Support for international market development and access

• Clear that SA’s major institutions and support programmes require substantial strengthening. Key lessons from the comparator economies for SA’s food processing industry:
  – Development of a National Food Plan
  – Development of an integrated food-processing policy and sub-sector strategies
  – Strengthening of regulatory systems
  – Food-processing incentives and support programmes, specifically in relation to R&D promotion to enhance agricultural production, environmental performance, commercialisation support, foreign investment and HACCP accreditation
Domestic overview

- South Africa’s population will reach close on 60m by the year 2050, a 20% increase on existing levels
- *Ceteris paribus*, the country will have to provide for an additional 20% volume in food requirements for its expanded population
- The population will also age, with the median population age increasing by 10 years to 34. As such, aggregate food requirements will increase on a per capita basis, with demand for higher-value processed foods set to increase
- Per capita income is projected to increase from 2010 levels of US$ 3,710 (constant 2000 prices), to US$ 9,308 by 2050: an increase of 151%. If this occurs, the South African population will undoubtedly complete its nutritional transition
- As such, the aggregate 20% increase in food consumption for 2050 is likely to be split in favour of protein-based food products and higher oil and fat content foods, as opposed to grains and cereals-based foods
Major strategic issues in SA’s five most prominent food processing value chains

Meat/poultry/seafood value chain:
• Poultry and pork industries under severe pressure from low cost imports
• Lack of veterinary protocols and regulation has resulted in lapse of certain trade agreements, limiting international market opportunities
• Industry consolidation has resulted in increased local industry competitiveness, but import penetration has inhibited local investment in processing operations, thus affecting the industry’s long-term viability

Fruit and vegetable value chain:
• High quality of SA fruit results in exports without significant levels of value addition
• SA canning industry is sizeable, but cost of packaging materials neutralises industry advantages
• Lack of investment in the fruit and vegetable processing industry affects its long-term viability
Major strategic issues in SA’s five most prominent food processing value chains

Confectionery value chain:
- Local industry losing market share to imports. Processing inputs also increasingly imported
- Strength of SA brands is key competitive advantage - in domestic and African markets
- Range of fine food niche opportunities, despite small producers battling to access larger retail chains

Milk and dairy value chain:
- Significant industry consolidation taken place, which has improved competitiveness, but substantial import pressure in respect of UHT products

Grains and related products value chain:
- SA maize value chain is strong
- "Savoury addition" opportunities based on SA industry understandings of local/regional taste/palate preferences
Strategic considerations

• **Tariff structure:**
  – Description ambiguities for various tariff lines carrying different duties, and a lack of tariff alignment does not facilitate competitive input costs, nor sufficient protection for finished goods producers

• **Lack of regional market integration:**
  – A key strategic consideration in terms of the industry’s competitiveness in the medium to long term

• **Food standards; export and import controls; and accreditation:**
  – Lack of regulation and monitoring of standards on imports creates an effective import bias

• **Credence goods value proposition:**
  – Limited opportunity exists locally, given the price-sensitivity of SA consumers, but opportunity is worth noting for selected international markets

• **Cost and supply reliability of material inputs:**
  – Material inputs are a key factor governing the food-processing industry’s competitiveness. Is a need for aligned policy across value chains to ensure consistent and cost effective materials supply

• **Cost of manufacturing:**
  – Input costs into manufacturing have undergone rapid, unsustainable increases in the past 12 to 18 months

• **Supplier development:**
  – Lack of development activities at the retailer/processor and processor/farmer levels represents a missed opportunity for the industry to improve its competitiveness

• **Packaging:**
  – Highly uncompetitive industry in SA, due to lack of scale economies and uncompetitive material inputs
Recommendations
Policy recommendations

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<tr>
<th>Recommendation</th>
<th>Objective</th>
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<tbody>
<tr>
<td>1. Compile National Food Policy to 2050</td>
<td>Provide overarching framework for all decisions relating to the SA food value chain (agriculture, manufacturing, and retailing)</td>
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<td>2. Compile an aligned SA food processing strategy (with associated provincial strategies)</td>
<td>Provide a clear framework for the development of the SA food processing sector</td>
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<td>3. Finalise land restitution processes as rapidly as possible</td>
<td>Secure private sector investment in the food processing sector. This will only be stimulated when the availability of domestic materials for the food processing value chain is finalized</td>
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<td>4. Develop common food policy positions with SSA economies</td>
<td>Align SSA food policies to (a) ensure regional food safety and (b) the optimization of food processing value chain opportunities through to 2050</td>
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<td>5. Develop policies that increase investment in food processing</td>
<td>Enhance investment in people, processes, and products within SA’s food value chain – to comparable international levels</td>
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# Regulatory recommendations

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<td>1. Implement comparative local-import regulations</td>
<td>Level the “playing field” between local food producers and importers</td>
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<td>2. Tariff review to encourage higher value food processing</td>
<td>Remove tariff discrepancies that undermine opportunities for higher value added food processing in South Africa</td>
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<td>3. State veterinary support</td>
<td>Ensure SA exporters into SSA are supported to meet different country food regulations</td>
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<td>4. Enhanced border control regulations</td>
<td>Reduce time taken at SSA border posts, and eliminate corruption</td>
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### Project specific recommendations

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<tr>
<td>1. Develop single food safety auditing system by SA retailers</td>
<td>Reduce the auditing cost of local food supply to SA retailers - encouraging SME growth and development</td>
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<td>2. SSA export marketing support programme</td>
<td>Encourage SA food processors (especially SMEs) to exploit SSA market opportunities</td>
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<td>3. Support for HACCP accreditation</td>
<td>Ensure SA food processors are accredited to international standards - foundation for global exports</td>
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<td>4. Strengthen National System of Food testing laboratories</td>
<td>Encourage food innovation through inexpensive product development</td>
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<td>5. Surplus milk programme</td>
<td>Balance supply and demand in the dairy industry at peak, as opposed to trough, demand levels</td>
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<td>6. Supplier development programme</td>
<td>Enhance the product and process capabilities of food processors to international levels</td>
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<td>7. Packaging investigation</td>
<td>Unpack the impact of packaging on food processing competitiveness and develop a remedial action plan</td>
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<td>8. Agave sugar investigation</td>
<td>Unlock the potential of agave sugar for the SA food processing sector</td>
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# Prioritisation of recommendations

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<thead>
<tr>
<th>Rank</th>
<th>Long term importance (weighting*)</th>
<th>Rank</th>
<th>Short term importance (weighting*)</th>
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<tbody>
<tr>
<td>1=</td>
<td>Compile a National Food Policy to 2050 (10)</td>
<td>1=</td>
<td>State veterinary support (7)</td>
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<tr>
<td>1=</td>
<td>Compile an aligned SA food processing strategy (and provincial strategies) (10)</td>
<td>1=</td>
<td>Enhanced border control regulations (7)</td>
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<tr>
<td>3=</td>
<td>Finalise land restitution processes as rapidly as possible (9)</td>
<td>1=</td>
<td>Surplus milk programme (7)</td>
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<tr>
<td>4=</td>
<td>Develop common food policy positions with SSA economies (8)</td>
<td>1=</td>
<td>Finalise land restitution processes as rapidly as possible (7)</td>
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<tr>
<td>5=</td>
<td>Develop policies that encourage major increases in food processing investment (8)</td>
<td>1=</td>
<td>Development of an agreed single food safety auditing system by South African retailers (7)</td>
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<tr>
<td>5=</td>
<td>Supplier development programme (8)</td>
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Short term project and regulation interventions will not have a major sustained and positive impact on the SA food value chain unless a clear whole-of-value chain food policy is articulated for the period to 2050, and an aligned SA food processing strategy developed. If these fundamental steps are not taken, the implementation of piecemeal project and regulation type interventions will only have a transitory positive impact on the value chain.
Thank you

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